

**REPORT OF THE AUDIT OF THE
MADISON COUNTY
CLERK**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MADISON COUNTY CLERK

For The Year Ended
December 31, 2009

The Auditor of Public Accounts has completed the Madison County Clerk's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Madison County Clerk had total revenues of \$17,618,059, which was a \$1,717,545 decrease from the prior year. Except for reimbursed expenses in the amount of \$146,670 and fiscal court contributions of \$200,000, the clerk paid 25% of revenues to the Madison County Fiscal Court in the amount of \$430,342. This was a decrease of \$10,872 from the prior year. In addition, 75% operating fund expenditures decreased by \$184,629.

Debt Obligations:

Lease agreements totaled \$420,559 as of December 31, 2009. Future principal and interest payments of \$420,559 are needed to meet these obligations.

Report Comments:

- 2009-01 Receipts Should Be Deposited Daily
- 2009-02 The County Clerk Should Pay Overtime At A Rate Of Time And One Half
- 2009-03 The County Clerk Should Improve Controls Over Payroll And Ensure Compliance With His Personnel Handbook
- 2009-04 The County Clerk Should Only Expend Funds For Allowable Purchases
- 2009-05 The County Clerk's Procedures Over The Imprest Cash Account Should Be Improved
- 2009-06 The County Clerk Needs To Improve Controls In The Deed Room

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
Honorable William E. Gabbard, Madison County Clerk
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Clerk of Madison County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2009. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 30, 2010 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Kent Clark, Madison County Judge/Executive
Honorable William E. Gabbard, Madison County Clerk
Members of the Madison County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-01 Receipts Should Be Deposited Daily
- 2009-02 The County Clerk Should Pay Overtime At A Rate Of Time And One Half
- 2009-03 The County Clerk Should Improve Controls Over Payroll And Ensure Compliance With His Personnel Handbook
- 2009-04 The County Clerk Should Only Expend Funds For Allowable Purchases
- 2009-05 The County Clerk's Procedures Over The Imprest Cash Account Should Be Improved
- 2009-06 The County Clerk Needs To Improve Controls In The Deed Room

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Madison County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

July 30, 2010

MADISON COUNTY
 WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State Fees For Services	\$	26,946	
Fiscal Court			203,456
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	2,261,347	
Usage Tax		6,789,719	
Tangible Personal Property Tax		5,519,476	
Other-			
Fish and Game Licenses		10,690	
Marriage Licenses		21,762	
Notary Fees		13,294	
Miscellaneous		4,502	
Deed Transfer Tax		204,998	
Delinquent Taxes		2,017,129	
		<hr/>	16,842,917
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		35,724	
Real Estate Mortgages		141,955	
Chattel Mortgages and Financing Statements		158,513	
Powers of Attorney		91,932	
All Other Recordings		84,766	
Charges for Other Services-			
Copywork		30,099	
		<hr/>	542,989
Other:			
Refunds and Overpayments			663
Interest Earned			<hr/> 1,088
Total Revenues			17,618,059

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 1,533,835	
Usage Tax	6,582,645	
Tangible Personal Property Tax	1,900,359	
Licenses, Taxes, and Fees-		
Delinquent Tax	247,473	
Legal Process Tax	61,380	
Affordable Housing Trust	91,932	
Miscellaneous	<u>10,763</u>	\$ 10,428,387

Payments to Fiscal Court:

Tangible Personal Property Tax	372,674	
Delinquent Tax	123,473	
Deed Transfer Tax	<u>194,748</u>	690,895

Payments to Other Districts:

Tangible Personal Property Tax	2,987,312	
Delinquent Tax	<u>1,033,479</u>	4,020,791

Payments to Sheriff 129,808

Payments to County Attorney 276,414

Operating Expenditures:

Other Charges-

Bank Charges	149	
Refunds	<u>60,245</u>	<u>60,394</u>

Total Expenditures \$ 15,606,689

Net Revenues 2,011,370

Payments to State Treasurer:

75% Operating Fund*	1,524,549	
25% County Fund	<u>430,342</u>	<u>1,954,891</u>

Balance Due at Completion of Audit \$ 56,479

* Includes reimbursed expenses in the amount of \$346,670 for the audit period. See Note 1 of Notes to Financial Statements.

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2009

	75% Operating Fund	25% County Fund	Totals
	<hr/>	<hr/>	<hr/>
Fund Balance - January 1, 2009	\$ (649,338)	\$	\$ (649,338)
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,524,549		1,524,549
Fees Paid to State For Prior Year Account Balances	113,145		113,145
Fees Paid to State - County Funds (25%)		430,342	430,342
	<hr/>	<hr/>	<hr/>
Total Funds Available	988,356	430,342	1,418,698
<u>Expenditures</u>			
Payments To Madison County Fiscal Court		430,342	430,342
Personal Services-			
County Clerk Statutory Maximum	95,256		95,256
County Clerk Expense Allowance	3,600		3,600
County Clerk Training Incentive	3,528		3,528
Deputies Salaries	833,258		833,258
Employee Benefits-			
Employer's Share Social Security	64,962		64,962
Employer's Share Retirement	135,100		135,100
Employer's Paid Health Insurance	96,984		96,984
Other Payroll Disbursements	3,464		3,464
Contracted Services-			
Copy Machine and Maintenance	10,683		10,683
Miscellaneous Equipment Agreements	17,032		17,032
Supplies and Materials-			
Office Supplies	13,128		13,128
Miscellaneous Office Expense	21,719		21,719

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued):			
Other Charges-			
Conventions and Travel	\$ 6,177	\$	\$ 6,177
Maintenance and Repairs	50		50
Notary	90		90
Postage	1,411		1,411
Advertising	25		25
PO Box Rental	312		312
Miscellaneous	266		266
Books and Maps	10,696		10,696
Debt Service:			
Computer Equipment & Software	177,235		177,235
Total Expenditures	1,494,976	430,342	1,925,318
Less: Disallowed Expenditures	(140)		(140)
Total Allowable Expenditures	1,494,836	430,342	1,925,178
Fund Balance - December 31, 2009	\$ (506,480)	\$ 0	\$ (506,480)

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2009

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009
(Continued)

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$16,090. These funds were not expended during the year; therefore, the unexpended grant balance was \$16,090 as of December 31, 2009.

Note 5. Leases

- A. The Office of the County Clerk was committed to a lease agreement with Software Management for hardware and software. The agreement requires a monthly payment of \$14,692 for 60 months to be completed in February 2012. The total remaining balance of the agreement was \$367,300 as of December 31, 2009.
- B. The Office of the County Clerk was committed to a lease agreement with Pitney Bowes for a postage machine and related equipment. The agreement requires a monthly payment of \$771 for 60 months to be completed in January 2014. The total remaining balance of the agreement was \$39,321 as of December 31, 2009.
- C. The Office of the County Clerk was committed to a lease agreement with US Bank Corp for a copier. The agreement requires a monthly payment of \$324 for 48 months to be completed in June 2013. The total remaining balance of the agreement was \$13,938 as of December 31, 2009.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009
(Continued)

Note 6. 75% Operating Fund - Deficit Balance

The Madison County Clerk's 75% operating fund had a deficit balance of \$506,480 as of December 31, 2009. KRS 64.345(4) states, "If seventy-five percent (75%) of the amount paid into the State Treasury in any month by any of such officers is not sufficient to pay the salaries and expenses of his/her office for that month, the deficit may be made up out of the amount paid in any succeeding month; but in no event shall the amount allowed by the Finance and Administration Cabinet to any officer for salaries and expenses exceed seventy-five percent (75%) of the amount paid to the Finance and Administration Cabinet by the officer during his/her term." The 75% operating fund has to be settled at the end of the County Clerk's term, which ends December 31, 2010.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
Honorable William E. Gabbard, Madison County Clerk
Members of the Madison County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Madison County Clerk for the year ended December 31, 2009, and have issued our report thereon dated July 30, 2010. The County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Madison County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Madison County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Madison County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2009-03 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-05 and 2009-06 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Madison County Clerk's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2009-01, 2009-02, and 2009-04.

The Madison County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Madison County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 30, 2010

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2009

FINDINGS - FINANCIAL STATEMENT AUDIT:

2009-01 Receipts Should Be Deposited Daily

During our review of receipts, auditors noted the following delays in funds being deposited:

- \$23,561 check from the state dated 9/23/09 was not deposited until 12/31/09
- \$16,090 check for Library and Archives grant dated 8/11/09 was not deposited until 12/31/09
- \$21,891 check from the County dated 3/24/10 was not deposited until 6/1/10

Under the authority of KRS 68.210, the Department for Local Government has established requirements for all local government officials handling public funds. These requirements include “daily deposits intact into a federally insured banking institution.” We recommend the Clerk implement procedures to ensure receipts are deposited timely in order to meet requirements established by DLG.

County Clerk's Response: These 3 payments were not deposited in a timely manner, purely by oversight. We will strive to do a better job.

2009-02 The County Clerk Should Pay Overtime At A Rate Of Time And One Half

During our audit, we noted that the Clerk was not compensating employees for hours work in excess of 37.5 hours per week. Of our sample, ten (10) employees' timecards showed twenty-one (21) days where hours worked exceeded 7.5 hours, yet they were not paid for their overtime. Employees worked as much as three (3) hours overtime in one week without being compensated for it.

KRS 337.285 (1) states, “No employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed”. The Fair Labor Standards Act (FLSA) also requires that all covered, nonexempt employees be paid overtime pay at a rate of not less than one and one-half times an employee's regular rate of pay after 40 hours of work in a workweek. Employees on a 37.5 hour workweek should be compensated their regular pay rates for their first 2.5 additional hours worked in any given workweek and be compensated at a rate of not less than one and one-half times their regular pay rate for any other additional hours worked. Earnings may be determined on a salary basis, but in all such cases the overtime pay due must be computed on the basis of the average hourly rate derived from such earnings. This is calculated by dividing the total pay for employment in any workweek by the total number of hours actually worked. The overtime requirement may not be waived by agreement between the employer and employees.

MADISON COUNTY
 WILLIAM E. GABBARD, COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2009
 (Continued)

FINDINGS - FINANCIAL STATEMENT AUDIT: (Continued)

2009-02 The County Clerk Should Pay Overtime At A Rate Of Time And One Half (Continued)

We recommend the County Clerk become compliant with the Fair Labor Standards Act and state laws including payment of overtime at a rate of straight time for the first 2.5 hours worked and at a rate of not less than one and one-half times an employee's regular rate of pay after 40 hours of work in a workweek. We will refer these matters to the Kentucky Department of Labor for review. Depending on the final resolution of these matters, wages may be due to the County Clerk's deputies.

County Clerk's Response: The handbook, which each employee has signed for, states that overtime must be approved by the clerk. None of these instances were approved or needed. It also states that all employees must clock in no more than 5 minutes early or 5 minutes after their due time to be off. The above employees were not working this late; they chose not to leave the building and also didn't clock out when they were told to. In the last few weeks, employees have been told if this happens in the future, they will be written up and risk termination.

Auditor's Reply: It is the Clerk's responsibility to ensure that employees are working while clocked in and compensate them for any time worked.

2009-03 The County Clerk Should Improve Controls Over Payroll And Ensure Compliance With His Personnel Handbook

During our audit, we found the following items pertaining to payroll:

- Assistant Bookkeeper is not clocking in upon arrival at the branch office in Berea.
- Adjustments to timecards were not properly approved by management.
- During three pay periods, the bookkeeper was off 8.25 hours, but her leave balances were not adjusted.
- Timecards for pay period ending 12/4/09 did not document supervisor review/approval.

In addition, auditors noted the following instances where the County Clerk did not abide by his employee handbook:

- All employees were awarded 27.5 hours annual leave above accrued time earned at year-end.
- One employee carried a negative 11 hour annual leave balance and a negative 11 hour sick leave balance from CY08 to CY09.
- Three employees carried over more than the limit of 52.5 hours annual leave from CY08 to CY09.
- Four employees were awarded 2 hours annual leave above time earned for pay period 1/27/09.

MADISON COUNTY
 WILLIAM E. GABBARD, COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2009
 (Continued)

FINDINGS - FINANCIAL STATEMENT AUDIT: (Continued)

2009-03 The County Clerk Should Improve Controls Over Payroll And Ensure Compliance With His Personnel Handbook (Continued)

Good internal controls dictate that proper approval and review of timesheets should be documented. We recommend the County Clerk ensure all timecards are signed by supervisors/county clerk, all employees are clocking in to determine hours earned and leave used, and any adjustments to timecards are approved. We also recommend the County Clerk monitor leave balances to ensure accuracy and abide by his personnel handbook.

County Clerk's Response: The "Assistant Bookkeeper" is not clocking in at Berea because that is not when her employment day begins, it begins when she is in route to that office. She is employed at the Richmond Office. Also, this employee receives no compensation for her travel; she has volunteered the service, in order to help with the budget costs. This was also extensively discussed with the auditor's last year, and we were told that if she kept a separate timecard in her vehicle, she could handwrite her "time in", they seemed to find the process acceptable. However, she has started clocking in at the Berea Office now. Adjustments to timecards means the supervisor did not initial handwritten items, we weren't aware we should, however we will now do so. Employees were told in writing in April 2008 to not write on their timecards. Regarding the "Bookkeeper" time periods-2 instances were oversights, that have been corrected, one was documented, and missed by auditors and the other looks fine, and there was a time clock malfunction that week. Timecards were not initialed by supervisor on one week-this was the first week that a new timekeeper was in charge of time, and it was strictly on oversight. There were reasons decided on by the clerk as to why some rules in the handbook regarding time were changed in a few instances. Since this recommendation, an addendum has been added to the handbook, to allow the clerk to adjust time at his discretion.

Auditor's Reply: Good internal controls would be for all employees to clock in when they reach the office where their workday is to begin. In reference to the "Bookkeeper" time periods, the Clerk's response refers to 4 instances rather than the 3 in the comment. At the exit, additional information was provided to the auditors for one of the instances noted, so the comment was revised to reflect this. An exit conference addendum was sent to the Clerk on October 6, 2010, to show this change in the comment and see if he would like to revise his response, and the response sent back was unchanged. As for the last instance in the Clerk's response that says, "and the other looks fine", no additional information was given to the auditor to verify that.

2009-04 The County Clerk Should Only Expend Funds For Allowable Purchases

During our review of expenditures, we noted the County Clerk expensed public funds for pay-per-view movies and other incidentals, for which he was not able to provide documentation, while attending a conference in Louisville. Technical Audit Bulletin 93-001 identifies expenditures that are neither reasonable nor necessary, or that do not have proper documentation shall be disallowed. We recommend the County Clerk reimburse the imprest account \$140 from personal funds for these disallowed expenditures. In addition, we recommend the Clerk reimburse the fee account \$198 for the self-portrait disallowed in the prior year audit.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009
(Continued)

FINDINGS - FINANCIAL STATEMENT AUDIT: (Continued)

2009-04 The County Clerk Should Only Expend Funds For Allowable Purchases (Continued)

County Clerk's Response: Clerk presented hotel with his debit card and instructed them to use it. The hotel, however, used the Clerks check instead. After several calls to hotel, they have issued a refund instead of reversing the charges. Clerk will gladly reimburse account for all expenses.

2009-05 The County Clerk's Procedures Over The Imprest Cash Account Should Be Improved

During our audit, we noted the following items pertaining to the imprest cash account:

- Requests for reimbursement were not submitted to the State on a routine basis in order to maintain a consistent balance within the account. We noted instances where purchases made in January 2009 were not submitted for reimbursement until June 2009. As outlined in the Finance and Administration Cabinet's Financial Operations Manual for Counties with population over 70,000, the petty cash fund should be replenished once a month.
- Adjustments recommended in the prior year audit were not made to imprest account. These include: 1) Sales tax paid on expenses in the amount of \$14 should be reimbursed by the Clerk's personal funds, 2) Receivables in the amount of \$122 should be collected from employee's disability insurance, 3) Reimbursement vouchers outstanding for \$131 need to be collected.
- Since the County Clerk handles all aspects of the imprest account (receipts, disbursements, reporting, and reconciliation), there is a lack of adequate segregation of duties over this account.

We recommend the County Clerk submit replenishment vouchers monthly as required and collect amounts due. We also recommend the County Clerk implement compensating controls over the imprest cash account, for example having someone other than the County Clerk reconcile the account or review and document their review of cash receipt and disbursement ledgers and reconciliations.

County Clerk's Response: The County Clerk understands this recommendation. We are in the process of collecting the 3 adjustments mentioned. This account is very rarely used, usually only at election time.

2009-06 The County Clerk Needs To Improve Controls In The Deed Room

During a surprise cash count, auditors noted that funds collected in the deed room were placed in plastic baskets on the counter, rather than a drawer. Auditors also noted that copy money was placed in a basket on the counter and funds were receipted into the system randomly throughout the day. There were no procedures in place for balancing or reconciling total copies made to total cash received. Good internal controls dictate that all cash be placed in a secure location at all times immediately after being received. Therefore, we recommend the Clerk ensure all cash is placed in the cash drawer when received. We also recommend the Clerk implement procedures to ensure all copywork is receipted and reconciles to total copies made daily.

MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009
(Continued)

FINDINGS - FINANCIAL STATEMENT AUDIT: (Continued)

2009-06 The County Clerk Needs To Improve Controls In The Deed Room (Continued)

County Clerk's Response: Procedures were immediately implemented regarding the deed room controls.

